



**MCI Communications
Corporation**

1801 Pennsylvania Avenue, NW
Washington, DC 20006

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

January 15, 1999

Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Ex Parte Submission
Federal-State Joint Board on Universal Service; CC Docket No. 96-45
Forward-Looking Mechanism for High Cost Support for Non-Rural LECs; CC
Docket No. 97-160 ✓

Dear Ms. Salas:

On January 14, 1999, AT&T and MCI WorldCom met with Craig Brown, Steve Burnett, Paula Ann Cech, Katie King, Bob Loube, Jeff Prisbrey, and Richard Smith of the Common Carrier Bureau on the staff's examination of input values for customer, operational and corporate overhead expenses for cost models for universal service. AT&T and MCI WorldCom were represented by Richard Clarke and Mike Lieberman of AT&T, Chris Frentrop of MCI WorldCom, and Arthur Menko and John McCloskey of Business Planning, Inc. The attached handouts served as the basis of the discussion.

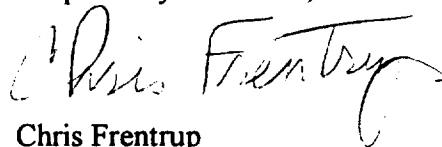
First, we discussed proposals made by Sprint in its December 22, 1998 ex parte. Specifically, we argued that Marketing expense should be minimal if any for the basic local service that receives universal service support, and thus that using ARMIS data to determine the forward-looking per-line marketing expense was inappropriate. In addition, we noted that company specific estimates of customer service and network operations should not be used in a forward-looking cost model.

Second, we presented potential adjustments to the historical corporate operations, customer service, and network operations expense data used in the Commission's regression estimates of the forward-looking level of these expenses. These estimates, which could be used to remove the effect of one-time or restructure costs, were based on data reported in Form 10-Ks and in the ARMIS 43-04 and 43-03. The CD enclosed with this ex parte contains those adjustments. Once these data are obtained, one of two uses could be made of them. Either the data used by the Commission could be adjusted, and the regressions re-estimated with this adjusted data, or these data could be used to adjust

the level of costs that are given by the original regression. As noted in the attached handouts, some of the data is not available at the level of disaggregation needed for the first use, so the second use of the data may be more appropriate, unless the local exchange carriers were able to provide the disaggregation.

Finally, we noted that use of historic data to estimate per-line forward-looking cost can only be done under certain circumstances. The local service which will receive support needs to be carefully defined, and costs for other services, such as vertical features, CLASS services, or inside wire need to be eliminated. Unfortunately, the currently available public data are not sufficiently granular to allow the separate identification of these costs. Thus, the per line costs we were able to obtain from the exercise of identifying and removing these non-recurring or restructure costs, while certainly closer to the true forward-looking cost of basic service than is the raw ARMIS data used in the Commission's regressions, do not necessarily represent the true level of that cost.

Respectfully submitted,



Chris Frentrup
Senior Economist
MCI WorldCom
1801 Pennsylvania Ave., NW
Washington, DC 20006
(202) 887-2731

cc: Letter only - Craig Brown, Steve Burnett, Paula Ann Cech, Katie King, Bob Loube, Jeff Prsbrey, Richard Smith

Corporate and Customer Operations Expenses

- The Commission's regression method for estimating corporate and customer expense can give reasonable results
 - Acct 6610 - Marketing Expenses should be excluded
 - Acct 6620 - Service Expenses
 - Acct 6710 - Executive & Planning
 - Acct 6720 - General & Administrative
 - Account 6510 - Other Plant, Property & Equipment
 - Account 6530 - Network Operations
- Sprint's 12/22 ex parte proposals for customer service and network operations expense are inappropriate
- Some adjustments for non-recurring and restructure costs can be made based on ARMIS and 10-K data
- Other needed adjustments are not easily quantified

Marketing Expenses are properly excluded from Universal Service Support

- Product Management - Acct 6611
 - costs of competitive analysis, product and service identification and specification, test market planning, demand forecasting, product life cycle analysis, pricing analysis, and identification and establishment of distribution channels
 - Basic universal service is a pre-defined package of service, requiring none of these activities

Marketing Expenses are properly excluded from Universal Service Support (cont'd.)

- Sales Acct 6612 -
 - cost incurred in selling, including determination of individual customer needs, development and presentation of customer proposals, sales order preparation and handling, and preparation of sales records.
 - Basic universal service is a generic offering, requiring no customer-specific design of the service

Marketing Expenses are properly excluded from Universal Service Support (cont'd.)

- Product Advertising Acct 6613
 - costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services.
 - Basic universal service requires no advertising to stimulate its purchase
 - Some de minimis amount of advertising may be required to notify customers that Lifeline service is available
 - However, existing account 6613 contains advertising for non-basic services, such as Caller ID, thus is likely vastly overstated.

Sprint's proposals for customer service and network operations expense are inappropriate

- Customer Service Expenses should not be based on company specific data
 - Sprint proposes that companies be allowed to provide an activity based costing approach estimate of their customer service costs.
 - Without careful specification by the FCC of the method to be used, this proposal would give the companies excessive leeway
 - Costs should reflect the cost an efficient provider would face.
 - At any rate, Sprint's results are within one standard error of FCC's regression estimate
 - Sprint claims per line customer service expense of \$1.70
 - FCC's regression found a range of \$1.29 to \$1.44, with a standard error of about \$0.47

Sprint's proposals for customer service and network operations expense are inappropriate (cont'd.)

- Sprint's Network Operations Costs are overstated
 - Sprint estimates of \$3.00 per line is based on results from only one company
 - BCPM's default input for these costs is \$1.33.
 - FCC's regression estimate is \$1.39 to \$1.54
 - While Sprint does remove some non-basic service related costs, it ignores other sources of saving (see HIP binder, Appendix D)
 - power costs (Acct 6531) will decline as more digital equipment is used
 - network administration costs (Acct 6532) will decline due to SONET-based transport,
 - testing (Acct 6533) will decline due to outsourcing of testing, and the use of "hot spares"
 - plant operations and administration (Acct 6534) will decline as vendors take over more of these functions, reducing LEC management
 - Engineering (Acct 6535) expense is 2/3rds "Other". This is likely to be expense eventually assigned to specific projects, should be excluded.

Accounting Adjustments to Customer, Network and Corporate Operations Expense

PURPOSE

Identifying and quantifying non-recurring corporate and network operations charges that are included in LEC ARMIS or other financial reports, but which are inappropriate to be included in forward looking cost analyses.

- One-time charges such as re-engineering, restructuring and severance.

Identifying and quantifying all customer operations expenses that support the provision of basic local exchange loop service (POTS and MTS).

- Basic local loop is defined as the service providing the wire facility connecting the customer with the local central office providing dial tone.

Limitations of Accounting Adjustments

- The overall aim of this work is to develop a forward looking study of the customer, network and corporate operations expense. But because the only data available describe embedded costs, these accounting data must be adjusted before they may be used to draw inferences about forward-looking expenses.
- Ideally, all categories of these accounting data would be sufficiently granular to isolate the portions of these category expenses that support forward-looking POTS. While such data granularity is available for customer operations expense (exclusive of service order processing), it is not available for corporate and network operations expense. Thus, this accounting exercise will have not purged completely costs that are nongermane to POTS from these categories.

One Time Charges Identified for Corporate and Network Operations Expense

- Non-recurring activities such as restructuring the ILECs' work processes to correct legacy systems are one-time charges that should not be considered part of normal ongoing operating expenses.
- Examples of these restructuring costs include:
 - Consolidation and Elimination of Operations
 - Consolidation of Locations
 - Severance Charges associated with Force Reductions
 - Merger Related Costs
 - Systems Redesign
- Typically, when an ILEC announces a restructuring plan, it reports these charges in its 10K filings to the Securities Exchange Commission. In the 10Ks, the ILECs often provide estimates of the time periods over which those costs will be recognized and of their reserve balances.
- The 10K filings of the 17 Bell Operating Companies and 7 GTE Operating Companies have been researched from 1993-97 to determine their included restructuring costs.

Example of One-Time Charges Identified

New York Telephone - Corporate Operation Expense Adjustments

<u>Source: SEC 10K and 10Q Reports</u>						
	<u>1993-97</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
<i>Retirement Incentives - Pension Enhancements</i>						
Set up in 1993 for Force Reductions	\$916.4	\$175.5	\$73.4	\$221.5	\$446.0	
Other Retirement Incentives	\$211.3	\$57.0	\$14.4	\$82.5	\$57.4	
<i>Merger Related Costs:</i>						
Transition/Integration Costs	\$25.0	\$25.0				
Direct Incremental Costs	\$11.0	\$11.0				
Consolidating Operations/Organizations	\$273.0	\$273.0				
<i>Process Reengineering Costs - Set up in 1993:</i>						
System Redesign - Customer Contact/Operations	\$132.0		\$64.0	\$68.0		
Work Center Consolidation	\$48.0		\$3.0	\$35.0	\$10.0	
Branding	\$19.0			\$4.0	\$15.0	
Implementation/Training	\$6.0		\$3.0	\$2.0	\$1.0	
<i>Restructuring Costs for Telesector Resources:</i>						
Severance	\$71.0				\$71.0	
Postretirement Medical Costs	\$31.0				\$31.0	
System Re-engineering	\$118.0		\$5.0	\$68.0	\$45.0	
Re-engineering Implementation	\$35.0			\$14.0	\$21.0	
Retirement Incentive Costs	\$1,127.7	\$232.5	\$87.8	\$304.0	\$503.4	\$0.0
Re-engineering/Restructuring Costs	\$460.0	\$0.0	\$75.0	\$191.0	\$194.0	\$0.0
Merger/Consolidation/Other Contingencies	\$309.0	\$309.0	\$0.0	\$0.0	\$0.0	\$0.0
Total One Time Adjustments	\$1,896.7	\$541.5	\$162.8	\$495.0	\$697.4	\$0.0
Total One Time Adjustments per Line		\$47.71	\$14.91	\$47.11	\$68.59	\$0.00

Corporate Operations Expense

Source: ARMIS 4303 – Subject to Separations

Time Period: 1993-97

Companies: All Tier One

Accounts: Total Corporate Operations includes:
6710 Executive and Planning
6720 General and Administrative
 Accounting and Finance
 External Relations
 Human Resources
 Information Management
 Legal
 Procurement
 Research and Development
 Other General and Administrative

Corporate Operations Expense Adjustments 1993-97 Average

	Thousands of Dollars	Dollars Per Line	Per Line Per Month	Percent of Total
Ameritech				
Total Corporate Operations	1,074,560	\$57.45	\$4.79	
Total One-Time Charges	88,200	\$4.72	\$0.39	8.2%
Corp. Operations Less Charges	986,360	\$52.73	\$4.39	
Bell Atlantic - South				
Total Corporate Operations	1,169,190	\$59.28	\$4.94	
Total One-Time Charges	46,800	\$2.37	\$0.20	4.0%
Corp. Operations Less Charges	1,122,390	\$56.90	\$4.74	
Bell Atlantic - North				
Total Network Expenses Corp. Ops	1,636,993	\$95.67	\$7.97	
Total One-Time Charges	576,220	\$33.68	\$2.81	35.2%
Corp. Operations Less Charges	1,060,773	\$62.00	\$5.17	
BellSouth Telecommunications				
Total Corporate Operations	1,282,371	\$61.69	\$5.14	
Total One-Time Charges	355,800	\$17.12	\$1.43	27.7%
Corp. Operations Less Charges	926,571	\$44.57	\$3.71	
Pacific Bell				
Total Corporate Operations	1,104,464	\$67.33	\$5.61	
Total One-Time Charges	440,000	\$26.83	\$2.24	39.8%
Corp. Operations Less Charges	664,464	\$40.51	\$3.38	
Southwestern Bell				
Total Corporate Operations	799,656	\$56.87	\$4.74	
Total One-Time Charges	52,200	\$3.71	\$0.31	6.5%
Corp. Operations Less Charges	747,456	\$53.16	\$4.43	
US West				
Total Corporate Operations	1,186,567	\$79.83	\$6.65	
Total One-Time Charges	104,000	\$7.00	\$0.58	8.8%
Corp. Operations Less Charges	1,082,567	\$72.83	\$6.07	
All RBOC				
Total Corporate Operations	8,253,801	\$67.85	\$5.65	
Total One-Time Charges	1,663,220	\$13.67	\$1.14	20.2%
Corp. Operations Less Charges	6,590,581	\$54.18	\$4.51	
GTE				
Total Corporate Operations	1,152,204	\$65.99	\$5.50	
Total One-Time Charges	325,680	\$18.65	\$1.55	28.3%
Corp. Operations Less Charges	826,524	\$47.34	\$3.94	
All Tier One				
Total Corporate Operations	10,058,851	\$66.86	\$5.57	
Total One-Time Charges	1,992,935	\$13.25	\$1.10	19.8%
Corp. Operations Less Charges	8,065,916	\$53.62	\$4.47	

Network Operations Expense

Source: ARMIS 4303 – Subject to Separations

Time Period: 1993-97

Companies: All Tier One

Accounts: 6530 Total Network Operations includes:
Power
Testing
Network Administration
Plant Operations Administration

Network Operations Expense Adjustments 1993-97 Average

<i>Ameritech Network Expense</i>	Thousands of Dollars	Dollars Per Line	Per Line Per Month	Percent of Total
Total Corporate Operations	660,760	\$35.33	\$2.94	
Total One-Time Charges	0	\$0.00	\$0.00	0.0%
Corp. Operations Less Charges	660,760	\$35.33	\$2.94	
Bell Atlantic - South				
Total Corporate Operations	731,011	\$37.06	\$3.09	
Total One-Time Charges	0	\$0.00	\$0.00	0.0%
Corp. Operations Less Charges	731,011	\$37.06	\$3.09	
Bell Atlantic - North				
Total Network Expenses	885,959	\$51.78	\$4.31	
Total One-Time Charges	0	\$0.00	\$0.00	0.0%
Corp. Operations Less Charges	885,959	\$51.78	\$4.31	
BellSouth Telecommunications				
Total Corporate Operations	927,542	\$44.62	\$3.72	
Total One-Time Charges	82,200	\$3.95	\$0.33	8.9%
Corp. Operations Less Charges	845,342	\$40.67	\$3.39	
Pacific Bell				
Total Corporate Operations	701,344	\$42.76	\$3.56	
Total One-Time Charges	10,200	\$0.62	\$0.05	1.5%
Corp. Operations Less Charges	691,144	\$42.14	\$3.51	
Southwestern Bell				
Total Corporate Operations	600,191	\$42.69	\$3.56	
Total One-Time Charges	0	\$0.00	\$0.00	0.0%
Corp. Operations Less Charges	600,191	\$42.69	\$3.56	
US West				
Total Corporate Operations	665,076	\$44.75	\$3.73	
Total One-Time Charges	72,000	\$4.84	\$0.40	10.8%
Corp. Operations Less Charges	593,076	\$39.90	\$3.33	
All RBOC				
Total Corporate Operations	5,171,882	\$42.51	\$3.54	
Total One-Time Charges	164,400	\$1.35	\$0.11	3.2%
Corp. Operations Less Charges	5,007,482	\$41.16	\$3.43	
GTE				
Total Corporate Operations	599,377	\$34.33	\$2.86	
Total One-Time Charges	0	\$0.00	\$0.00	0.0%
Corp. Operations Less Charges	599,377	\$34.33	\$2.86	
All Tier One				
Total Corporate Operations	6,390,108	\$42.48	\$3.54	
Total One-Time Charges	164,400	\$1.09	\$0.09	2.6%
Corp. Operations Less Charges	6,225,708	\$41.38	\$3.45	

COSTS OF LOCAL SERVICE

CUSTOMER OPERATIONS EXPENSES

PART 32 ACCOUNTS

6610 Marketing

6611 Product Management

6612 Sales

6613 Product Advertising

6620 Services

6621 Call Completion Services

6622 Number Services

6623 Customer Services

These expenses are **not** included in current USF cost allocations.

Scope of Project

To determine the portion of these expenses associated with the cost of providing basic exchange service, defined as:

1. The local exchange loop (MTS, POTS) including dial tone
2. Related services and activities:
 - Local and intra-exchange switching
 - Directory Assistance
 - Published Directory (white pages)
 - Coin Collection and Administration

SOURCE OF DATA

ARMIS Report 43-04

Provides detail not contained in Part 32 sub accounts

Expenses as **reported** extracted for this exercise.

Minimal need for cost allocation.

6610 MARKETING

Product Management, Sales, Product Advertising

No costs for basic service identified in 43-04 and **none** allocated in this exercise.

For the most part LEC's do not market basic service.

6620 SERVICES

6621 Call Completion

Operator handled and operator related calls

Credit card, collect, 3'rd party billing

Rate and route quoting

Intercept

No costs assigned to basic service.

**Some Call Completion necessary to assist the handicapped for local calls.
Considered minimal.**

6622 Number Services

Published Directory

43-04 reported costs for white pages identified as a related service.

Directory Assistance (DA)

Reported costs, excluding interstate amounts identified as a related service. Interstate expenses are reimbursed via access charges.

Allocation necessary for those LEC's that lump all of their operator expenses in one category.

6623 Customer Services

Business Office - Category 1

Revenue Accounting - Category 2

Other - Category 3

Business Office (Category 1)

Local Offices

Service Order Processing

Payment and Collection

Billing Inquiry

The 43-04 provides a breakdown of costs associated with basic service versus costs for toll and private line.

Identified basic service costs are included under 'Basic Local Loop'.

Inter-exchange Carrier Bureaus

Service Order Processing

Payment and Collection

Billing Inquiry

These expenses are for servicing IX carriers, exclusively.

No costs assigned to basic service.

Coin Collection and Administration

Costs included as a 'Related Service'.

Revenue Accounting (Category 2)

Message Processing

Toll Ticket

Local Message Processing

Expenses for companies that report costs for Local are included in the
Switching 'Related Service'.

Other Billing and Collecting

MTS - Toll

* Exchange, Semi Public

Private Line

* End User CL

* Local

* Reported as Basic Local Loop Costs

Carrier Access Billing - Not related to Basic Service

Other Customer Services (Category 3)

These expenses are primarily for customer training, coin commissions, and intra - RBOC billing among LEC's.

No expenses assigned to Basic Service Categories.

ALL RBOCs
Average 1993 - 1997
In Dollars Per Line Per Month

	OTHER RELATED SERVICES						
	SUBJECT TO SEPARATIONS	BASIC LOCAL LOOP	LOCAL OR INTRA-EXCH SWITCHING	DIRECTORY ASSISTANCE	PUBLISHED DIRECTORY	COIN COLLECTION & ADMIN	NON LOOP RELATED
TOTAL CUSTOMER OPERATIONS EXPENSE	6.82	2.14	0.01	0.81	0.19	0.08	3.59
Marketing	1.99						1.99
Directly Assigned	0.12						0.12
Allocated	1.87						1.87
Operator Services	1.17			0.81			0.36
Call Completion	0.24						0.24
Intercept	0.00						0.00
Directory Assistance	0.93			0.81			0.12
Other	-						-
Published Directory	0.22				0.19		
Classified	0.03						
TWX	-						
Alpha/Traffic	0.19				0.19		
Foreign	0.00						
CUSTOMER SERVICES	3.49	2.14	0.01			0.08	1.26
Category 1 (Business Office)	2.65	1.82				0.08	0.75
Local Business Office	2.38	1.82					0.57
Service Order Processing	1.26	1.14					0.12
Payment & Collection	0.56	0.32					0.24
Inquiry	0.56	0.36					0.20
Interexchange Carrier Office	0.19						0.19
Service Order Processing	0.14						0.14
Payment & Collection	0.03						0.03
Inquiry	0.02						0.02
Coin Collection and Administration	0.08					0.08	
Category 2 (Revenue Accounting)	0.56	0.32					0.25
Message Processing	0.04						0.04
Toll Ticket	0.02						0.02
Local Message	0.01		0.01				-
Other Billing & Collecting	0.51	0.32					0.19
MTS-Toll	0.19						0.19
Exchange, Semi. & DA	0.22	0.22					
Private Line	0.00						0.00
End User CL	0.04	0.04					
Local	0.06	0.06					
Carrier Access Billing	0.01						0.01
Category 3 (Other Customer Svcs)	0.27						0.27

All Tier 1 Companies
Average 1993 - 1997
In Dollars Per Line Per Month

		OTHER RELATED SERVICES					
	SUBJECT TO SEPARATIONS	BASIC LOCAL LOOP	LOCAL OR INTRA-EXCH SWITCHING	DIRECTORY ASSISTANCE	PUBLISHED DIRECTORY	COIN COLLECTION & ADMIN	NON LOOP RELATED
TOTAL CUSTOMER OPERATIONS EXPENSE	6.74	2.02	0.02	0.76	0.18	0.08	3.68
Marketing	1.91						1.91
Directly Assigned	0.10						0.10
Allocated	1.80						1.80
Operator Services	1.14			0.76			0.38
Call Completion	0.24						0.24
Intercept	0.00						0.00
Directory Assistance	0.87			0.76			0.11
Other	0.00						0.00
Published Directory	0.39				0.18		
Classified	0.07						
TWX	-						
Alpha/Traffic	0.18				0.18		
Foreign	0.00						
CUSTOMER SERVICES	3.37	2.02	0.02			0.08	1.26
Category 1 (Business Office)	2.47	1.69				0.08	0.70
Local Business Office	2.15	1.68					0.46
Service Order Processing	1.17	1.05					0.12
Payment & Collection	0.53	0.30					0.23
Inquiry	0.51	0.33					0.18
Interexchange Carrier Office	0.24						0.24
Service Order Processing	0.13						0.13
Payment & Collection	0.05						0.05
Inquiry	0.03						0.03
Coin Collection and Administration	0.08					0.08	
Category 2 (Revenue Accounting)	0.60	0.33					0.27
Message Processing	0.05						0.05
Toll Ticket	0.03						0.03
Local Message	0.02		0.02				-
Other Billing & Collecting	0.52	0.33					0.19
MTS-Toll	0.19						0.19
Exchange, Semi. & DA	0.23	0.18					
Private Line	0.00						0.00
End User CL	0.03	0.03					
Local	0.07	0.07					
Carrier Access Billing	0.03						0.03
Category 3 (Other Customer Svcs)	0.31						0.31

Accounting Adjustments to Customer, Network and Corporate Operations Expense

January 14, 1999

Database Contents

MS Access Database Tables (ATT.MDB)

1. Data: Contains Research Data
2. Data Per Line : Contains Research Data on a Per Line Basis
3. Data Per Line Per Month : Contains Research Data on a Per Line Per Month Basis
4. Account IDs: Contains Account Numeric Identifiers
5. Company IDs: Contains Company Numeric Identifiers
6. Holdings: Contains Company Codes within Specific Regions

Additional File Options

1. Data.txt: Text version of Data
2. Datpl.txt: Text version of Data Per Line
3. Datplpm.txt: Text version of Data Per Line Per Month
4. Cmpdef.txt : Numeric Company Definitions
5. Acctdef.txt : Numeric Account Definitions

Financial (10K) Data

10Ks for telephone subsidiaries by region are included on the CD in the '10K' directory.

Identification of Local Service Customer Operations Expense

Customer operations expenses have been adjusted to include only the local service elements. A sample template (New Jersey Bell - 1997) separates the local loop expenses from other related expenses (directory, assistance, published directory, and coin) and non-loop related expenses (toll, private line, etc.). All of these numbers have been obtained directly from the ARMIS 4304, conforming to its row items without any allocation algorithms except Directory Assistance and Call Completion expenses which were derived for the following companies; Ameritech, Nynex, US West, Cincinnati Bell, SNET, and GTE. The 4304 is rich in detail for customer operations and all expense displays are consistent with the Part 32 groupings.

Definitions:

Basic Loop is the wire facility that connects the customer with the local central office from which he gets dial tone.

Other Related Services is defined as ancillary features and services that are available to the basic loop customer such as coin collection, directory assistance and published directory.

Marketing: Since the LEC does not market basic local service, except for perhaps call waiting, call forwarding, and other 'non-caller ID' vertical services. The allocation to loop and related services is assumed to be zero at this time.

Operator Services: Only directory assistance is relevant here. Interstate expenses are excluded since these are reimbursed via access charges.

Published Directory: White Pages

Coin Collection and Administration pertains only to coin stations.

Local Business Office: Amounts included in the non-loop related category pertain to private line, dedicated message trunks, etc.

Inter-exchange Carrier Office: All amounts pertain to IXC activities.

Revenue Accounting: Some companies may show expense for Local Message. If so, it will be included under Switching.

Other Billing and Collection: Pertains to preparation and mailing of bills and processing remittances.

Carrier Access Billing: Costs for billing IXCs for access charges due to LECs

Category 3 (Other): Non-loop items such as coin commissions and customer training.

Notes and Exceptions

1. The base expense data is from the ARMIS 4303 and 4304 Reports.
2. The adjustments to the corporate and network operations expenses are one-time charges like reengineering, restructuring, and severance payments.
3. The identification of local service customer operations expenses are described in Section II.
4. Tier One calculations are based on companies that have filed complete information from 1993-97 in the ARMIS 4303, 4304 and 4308 for expenses and lines. The complete list of companies included are found in Section III. The companies excluded include:

Alltel of Georgia, Pennsylvania and Ohio
Contel of Illinois, New York, and the South
GTE of the Southwest – Arkansas
GTE of the Northwest – Montana and Oregon
GTE of the Midwest – C. Missouri and E. Missouri
Citizens of California, New York (Red Hook, Upstate, Western)
Puerto Rico Communications
Commonwealth Telephone

5. The switched access lines are from the ARMIS 4308, unless otherwise identified below. The switched access line count is an average of switched access lines at the beginning and end of the year. The source of switched access lines for the following companies comes from the ARMIS 4305 reports:

Contel of Arkansas, Minnesota (93-94), Virginia (94-97), New Mexico,
Kentucky, South Carolina, Washington, Quaker State, and Missouri (KS and AR)

Account numbers coincide with
Tables DATA, DATA PER LINE,
DATA PER LINE PER MINUTE

	SUBJECT TO SEPARATIONS	BASIC LOCAL LOOP	OTHER RELATED SERVICES			
			DIRECTORY ASSISTANCE	PUBLISHED DIRECTORY	COIN COLLECTION & ADMIN	NON LOOP RELATED
TOTAL CUSTOMER OPERATIONS EXPENSE	8000	8016	9032	9035	9040	9067
Marketing	7000					9066
Directly Assigned	6998					9065
Allocated	6999					9064
Operator Services	8001		9031			9063
Call Completion	7010					9062
Intercept	7020					9061
Directory Assistance	7030		9030			9060
Other	7040					9059
Published Directory	8002			9034		
Classified	7070					
TWX	7071					
Alpha/Traffic	7073			9033		
Foreign	7075					
CUSTOMER SERVICES	8003	8015			9038	9058
Category 1 (Business Office)	8004	8014			9037	9057
Local Business Office	8005	8013				9056
Service Order Processing	7096	7069				9055
Payment & Collection	7112	7109				9054
Inquiry	7132	7131				9053
Interexchange Carrier Office	8006					9052
Service Order Processing	7150					9051
Payment & Collection	7170					9050
Inquiry	7190					9049
Coin Collection and Administration	2281				9036	
Category 2 (Revenue Accounting)	8007	8012				9048
Message Processing	8008					9047
Toll Ticket	7233					9046
Local Message	7235					
Other Billing & Collecting	7259	8011				9045
MTS-Toll	7251					9044
Exchange, Semi. & DA	7255	8018				
Private Line	7256					9043
End User CL	7258	8017				
Local	8009	8010				
Carrier Access Billing	7270					9042
Category 3 (Other Customer Svcs)	7300					9041

Other Variables:	
Switched Access Lines	5000
Network Operations Expense	6530
Network Operations Exp. Adjustments	6531
Network Operations Exp. Normalized	6532
Customer Operations Expense	6600
Corporate Operations Expense	6700
Corporate Operations Exp. Adjustments	6701
Corporate Operations Exp. Normalized	6702

FCC Name	Company #	Holding	Company	State
SUM	10	Ameritech	Ameritech	
SUM	11	Bell Atlantic	Bell Atlantic	
SUM	12	BellSouth	BellSouth	
SUM	13	NYNEX	NYNEX	
SUM	14	PACTEL	PACTEL	
SUM	15	SBC	Southwestern Bell	
SUM	16	US West	US West	
SUM	17	All RBOC	All RBOC	
SUM	18	Centel	Centel	
SUM	19	GTE	GTE	
SUM	20	United	United	
SUM	26	All Tier 1	All Tier 1	
LBIL	101	Ameritech	Illinois Bell	IL
NBIN	102	Ameritech	Indiana Bell	IN
MBMI	103	Ameritech	Michigan Bell	MI
OBOH	104	Ameritech	Ohio Bell	OH
WTWI	105	Ameritech	Wisconsin Bell	WI
PAPA	121	Bell Atlantic	Bell of Pennsylvania	PA
NJNJ	122	Bell Atlantic	Bell of New Jersey	NJ
DSDE	123	Bell Atlantic	Diamond State	DE
CDDC	124	Bell Atlantic	Chesapeake & Potomac	DC
CMDM	125	Bell Atlantic	C & P of Maryland	MD
CVVA	126	Bell Atlantic	C & P of Virginia	VA
CWWV	127	Bell Atlantic	C & P of West Virginia	WV
BSFL	141	BellSouth	BST-Florida	FL
BSGA	142	BellSouth	BST-Georgia	GA
BSNC	143	BellSouth	BST-North Carolina	NC
BSSC	144	BellSouth	BST-South Carolina	SC
BSAL	151	BellSouth	BST-Alabama	AL
BSKY	152	BellSouth	BST-Kentucky	KY
BSLA	153	BellSouth	BST-Louisiana	LA
BSMS	154	BellSouth	BST-Mississippi	MS
BSTS	155	BellSouth	BST-Tennessee	TN
NEMA	161	Bell Atlantic	NET - Massachussets	MA
NEME	162	Bell Atlantic	NET - Maine	ME
NENH	163	Bell Atlantic	NET - New Hampshire	NH
NERI	164	Bell Atlantic	NET - Rhode Island	RI
NEVT	165	Bell Atlantic	NET - Vermont	VT
NYNY	169	Bell Atlantic	New York Telephone	NY
PTCA	181	SBC	Pacific Bell	CA
PTNV	182	SBC	Nevada Bell	NV
SWAR	191	SBC	SWBT - Arkansas	AR
SWKS	192	SBC	SWBT - Kansas	KS
SWMO	193	SBC	SWBT - Missouri	MO
SWOK	194	SBC	SWBT - Oklahoma	OK
SWTX	195	SBC	SWBT - Texas	TX
MSAZ	201	US West	USW- Arizona	AZ
MSCO	202	US West	USW-Colorado	CO
MSID	203	US West	USW-Idaho	ID
MSMT	204	US West	USW-Montana	MT
MSNM	205	US West	USW-New Mexico	NM

FCC Name	Company #	Holding	Company	State
MSUT	206	US West	USW-Utah	UT
MSWY	207	US West	USW-Wyoming	WY
NWIA	211	US West	USW-Iowa	IA
NWMN	212	US West	USW-Minnesota	MN
NWNE	213	US West	USW-North Dakota	ND
NWNE	214	US West	USW-Nebraska	NE
PNID	215	US West	USW-South Dakota	SD
PNOR	222	US West	USW-Oregon	OR
PNWA	223	US West	USW-Washington	WA
CBTC	251	CBT	Cincinnati Bell	OH
SNCT	252	SNET	SNET	CT
CEFL	301	CENTEL	CENTEL Florida	FL
CEIL	302	CENTEL	CENTEL Illinois	IL
CEVA	303	CENTEL	CENTEL Virginia	VA
CENC	304	CENTEL	CENTEL N. Carolina	NC
CENV	305	CENTEL	CENTEL Nevada	NV
GTIA	401	GTE	GTE MW - Iowa	IA
GTMN	402	GTE	GTE MW - Minnesota	MN
GTMO	403	GTE	GTE MW - Missouri	MO
GTIL	411	GTE	GTE North - Illinois	IL
GTIN	412	GTE	GTE North - Indiana	IN
GTMi	413	GTE	GTE North - Michigan	MI
GTNE	414	GTE	GTE North - Nebraska	NE
GTOH	415	GTE	GTE North - Ohio	OH
GTPA	416	GTE	GTE North - Pennsylvania	PA
GTWI	417	GTE	GTE North - Wisconsin	WI
GTID	431	GTE	GTE NW- Idaho	ID
GTMT	432	GTE	GTE NW- Montana	MT
GTOR	433	GTE	GTE NW- Oregon	OR
GTWA	434	GTE	GTE NW- Washington	WA
GLIL	441	GTE	GTE South - Illinois	IL
GLIN	442	GTE	GTE South - Indiana	IN
GLMI	443	GTE	GTE South - Michigan	MI
GTAL	444	GTE	GTE South - Alabama	AL
GTKY	445	GTE	GTE South - Kentucky	KY
GTNC	446	GTE	GTE South - N. Carolina	NC
GTSC	447	GTE	GTE South - S. Carolina	SC
GTVA	448	GTE	GTE South - Virginia	VA
GTAR	461	GTE	GTE SW - Arkansas	AR
GTNM	462	GTE	GTE SW - New Mexico	NM
GTOK	463	GTE	GTE SW - Oklahoma	OK
GTTX	464	GTE	GTE SW - Texas	TX
GTCA	471	GTE	GTE California	CA
GTHI	481	GTE	GTE Hawaii	HI
GTFL	482	GTE	GTE Florida	FL
GTMC	483	GTE	GTE Micronesia	MC
COIA	501	GTE/ Contel	GTE MW - Iowa	IA
COMO	502	GTE/ Contel	GTE MW - Missouri	MO
COCM	503	GTE/ Contel	GTE MW - C. Missouri	MO
COEM	504	GTE/ Contel	GTE MW - E. Missouri	MO
COKS	505	GTE/ Contel	GTE MW - Kansas	KS

FCC Name	Company #	Holding	Company	State
COIL	511	GTE/ Contel	GTE North- Illinois	IL
COIN	512	GTE/ Contel	GTE North- Indiana	IN
COQS	513	GTE/ Contel	GTE North- PA Quaker	PA
COPA	514	GTE/ Contel	GTE North- Pennsylvania	PA
COOR	531	GTE/ Contel	GTE NW- Oregon	OR
COWA	532	GTE/ Contel	GTE NW- Washington	WA
GNCA	533	GTE/ Contel	GTE NW- N. California	CA
COKY	541	GTE/ Contel	GTE South- Kentucky	KY
CONC	542	GTE/ Contel	GTE South- N. Carolina	NC
COSC	543	GTE/ Contel	GTE South- S. Carolina	SC
COVA	544	GTE/ Contel	GTE South- Virginia	VA
COAL	545	GTE/ Contel	GTE South- Alabama	AL
COAZ	571	GTE/ Contel	GTE CA - Arizona	AZ
COCA	572	GTE/ Contel	GTE CA - California	CA
CONV	573	GTE/ Contel	GTE CA - Nevada	NV
CONM	575	GTE/ Contel	GTE SW - New Mexico	NM
COTX	581	GTE/ Contel	GTE Texas	TX
COAR	582	GTE/ Contel	GTE Arkansas	AR
COMN	583	GTE/ Contel	Minnesota	MN
UTFL	601	United	United- Florida	FL
UTIN	602	United	United- Indiana	IN
UTMO	603	United	United- Missouri	MO
UTNC	604	United	United- N. Carolina	NC
UTNJ	605	United	United- New Jersey	NJ
UTOH	606	United	United- Ohio	OH
UTOR	607	United	United- Oregon	OR
UTPA	608	United	United- Pennsylvania	PA
UTTN	609	United	United- Tennessee	TN
UTTX	610	United	United- Texas	TX
UTVA	611	United	United- Virginia	VA
UTWA	612	United	United- Washington	CA
CUCA	711	Citizens	Citizens - California	CA
LTNE	712	Lincoln	Lincoln - Nebraska	NE
RTNY	713	Rochester	Rochester - New York	NY
PRTC	714	PRTC	Puerto Rico Telephone	PR

Database Account #	Account Definition	Account Row #	Account Column	ARMIS Report
5000	Switched Access Lines			4308
6530	Network Operations Expense Unadjusted	6530	12	4303
6531	Network Operations Expense Adjustments	6531		Derived #
6532	Network Operations Expense Normalized	6532		Derived #
6600	Customer Operations Expense	6600	12	4303
6700	Corporate Operations Expense Unadjusted	6700	12	4303
6701	Corporate Operations Expense Adjustments	6701		Derived #
6702	Corporate Operations Expense Normalized	6702		Derived #
6998	Subject to Separations: Marketing Expenses Directly Associated with Sales	6998	1	4304
6999	Subject to Separations: Marketing Expenses Allocated	6999	1	4304
7000	Subject to Separations: Total Marketing Expenses	7000	1	4304
7010	Subject to Separations: Call Completion Service Expenses	7010	1	4304
7020	Subject to Separations: Intercept Service Expenses	7020	1	4304
7030	Subject to Separations: Directory Assistance Expenses	7030	1	4304
7040	Subject to Separations: Other Telephone Operator Service Expenses	7040	1	4304
7060	Subject to Separations: Total Telephone Operator Services Expenses	7060	1	4304
7070	Subject to Separations: Classified Directory Expenses	7070	1	4304
7071	Subject to Separations: TWX Directory Expenses	7071	1	4304
7073	Subject to Separations: Alphabetical & Address Directories & Traffic Info records	7073	1	4304
7075	Expenses Associated w/ Foreign Directories	7075	1	4304
7089	Basic Local Loop: Local End User Service Order Processing Expenses	7089	1	4304
7096	Subject to Separations: Total End User Service Order Processing Expenses	7096	1	4304
7109	Basic Local Loop: Local End User Payment & Collection Expenses	7109	1	4304
7112	Subject to Separations: Total End User Payment & Collection Expenses	7112	1	4304
7131	Basic Local Loop: Other Billing Inquiry Expenses	7131	1	4304
7132	Subject to Separations: Total End User Billing Inquiry Expenses	7132	1	4304
7150	Subject to Separations: Total Interexchange Carrier Service Order Processing Expenses	7150	1	4304
7170	Subject to Separations: Total Interexchange Carrier Payment and Collection Expenses	7170	1	4304
7190	Subject to Separations: Total Interexchange Carrier Billing Inquiry Expenses	7190	1	4304
7200	Subject to Separations: Coin Collection & Administration Expenses	7200	1	4304
7233	Subject to Separations: Toll Ticket Processing Expenses	7233	1	4304
7235	Subject to Separations: Local Message Processing Expenses	7235	1	4304
7251	Subject to Separations: MTS, Other Billing & Collecting expenses allocated to message toll	7251	1	4304
7255	Subject to Separations: Exchange, Semi-public Tel & Directory Advertising Expenses	7255	1	4304
7256	Subject to Separations: Private Line Expenses and Other Billing & Collecting Expenses	7256	1	4304
7258	Subject to Separations: End User Common Line Access Billing Expenses	7258	1	4304
7259	Subject to Separations: Total Other Billing & Collecting Expenses	7259	1	4304
7270	Subject to Separations: Carrier Access Charge Billing & Collecting Expenses	7270	1	4304
7300	Subject to Separations: All Other Customer Services Expenses	7300	1	4304
8000	Subject to Separations: Total Customer Operations Expense			Derived #
8001	Subject to Separations: Total Operator Services Expense			Derived #
8002	Subject to Separations: Total Published Directory Expense			Derived #
8003	Subject to Separations: Total Customer Services Expense			Derived #
8004	Subject to Separations: Total Category 1: Business Office Expense			Derived #
8005	Subject to Separations: Total Local Business Office Expense			Derived #
8006	Subject to Separations: Total Interexchange Office Carrier Expense			Derived #
8007	Subject to Separations: Total Category 2 :Revenue Accounting Expense			Derived #
8008	Subject to Separations: Total Message Processing Expense			Derived #
8009	Subject to Separations: Local Billing & Collecting			Derived #
8010	Basic Local Loop: Local Billing & Collecting			Derived #
8011	Basic Local Loop: Total Other Billing & Collecting Expenses			Derived #
8012	Basic Local Loop: Total Category 2 :Revenue Accounting Expense			Derived #
8013	Basic Local Loop: Total Local Business Office Expense			Derived #
8014	Basic Local Loop: Total Category 1 : Business Office Expense			Derived #
8015	Basic Local Loop: Total Customer Services Expense			Derived #
8016	Basic Local Loop: Total Customer Operations Expense			Derived #
8017	Basic Local Loop: End User CL Expense	7258	1	4304
8018	Basic Local Loop: Exchange, Semi-Public & Directory Assistance Expenses	7255	1	4304
9030	Directory Assistance: Directory Assistance Expense	7030	2	4304
9031	Directory Assistance: Total Operator Services Expense			Derived #

Database Account #	Account Definition	Account Row #	Account Column	ARMIS Report
9032	Directory Assistance: Total Customer Operations Expense			Derived #
9033	Published Directory: Alpha/Traffic	7073	1	4304
9034	Published Directory: Published Directory			Derived #
9035	Published Directory: Total Customer Operations Expense			Derived #
9036	Coin Collection & Administration: Coin Collection & Administration Expense	7200	1	4304
9037	Coin Collection & Administration: Total Category 1: Business Office Expense			Derived #
9038	Coin Collection & Administration: Total Customer Services			Derived #
9040	Coin Collection & Administration: Total Customer Operations Expense			Derived #
9041	Non Loop Related: All Other Customer Services Expenses			Derived #
9042	Non Loop Related: Carrier Access Charge Billing & Collecting Expenses			Derived #
9043	Non Loop Related: Private Line Expenses and Other Billing & Collecting Expenses			Derived #
9044	Non Loop Related: MTS, Other Billing & Collecting expenses allocated to message toll			Derived #
9045	Non Loop Related: Total Other Billing & Collecting Expenses			Derived #
9046	Non Loop Related: Toll Ticket Processing Expenses			Derived #
9047	Non Loop Related: Total Message Processing Expense			Derived #
9048	Non Loop Related: Total Category 2 :Revenue Accounting Expense			Derived #
9049	Non Loop Related: Total Interexchange Carrier Billing Inquiry Expenses			Derived #
9050	Non Loop Related: Total Interexchange Carrier Payment and Collection Expenses			Derived #
9051	Non Loop Related: Total Interexchange Carrier Service Order Processing Expenses			Derived #
9052	Non Loop Related: Total Interexchange Office Carrier Expense			Derived #
9053	Non Loop Related: Total End User Billing Inquiry Expenses			Derived #
9054	Non Loop Related: Total End User Payment & Collection Expenses			Derived #
9055	Non Loop Related: Total End User Service Order Processing Expenses			Derived #
9056	Non Loop Related: Total Local Business Office Expense			Derived #
9057	Non Loop Related: Total Category 1: Business Office Expense			Derived #
9058	Non Loop Related: Total Customer Services			Derived #
9059	Non Loop Related: Other Telephone Operator Service Expenses			Derived #
9060	Non Loop Related: Directory Assistance Expenses			Derived #
9061	Non Loop Related: Intercept Service Expenses			Derived #
9062	Non Loop Related: Call Completion Service Expenses			Derived #
9063	Non Loop Related: Total Operator Services Expense			Derived #
9064	Non Loop Related: Marketing Expense Allocated			Derived #
9065	Non Loop Related: Marketing Expenses Directly Associated with Sales			Derived #
9066	Non Loop Related: Total Marketing Expenses			Derived #
9067	Non Loop Related: Total Customer Operations Expense			Derived #
9068	Local or Intra-Exchange Switching: Local Message			Derived #
9069	Local or Intra-Exchange Switching: Total Customer Service Expense			Derived #
9070	Local or Intra-Exchange Switching: Total Customer Operations Expense			Derived #